

THE MUSICIANS HALL OF FAME AND MUSEUM

AUDIT OF FINANCIAL STATEMENTS

DECEMBER 31, 2017

THE MUSICIANS HALL OF FAME AND MUSEUM
TABLE OF CONTENTS
DECEMBER 31, 2017

Independent Auditor's Report.....	3-4
Statement of Financial Position.....	5
Statement of Activities.....	6
Statement of Cash Flows.....	7
Statement of Functional Expenses.....	8
Notes to Financial Statements.....	9-14

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Independent Auditor's Report

To the Board of Directors
The Musicians Hall of Fame and Museum
401 Gay Street
Nashville, Tennessee 37219

We have audited the accompanying financial statements of The Musicians Hall of Fame and Museum (a nonprofit organization) which comprise the statement of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

(Continued)

Independent Auditor's Report, continued

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Musicians Hall of Fame and Museum as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such other information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Nashville, Tennessee
November 13, 2018

THE MUSICIANS HALL OF FAME AND MUSEUM
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

	<i>December 31,</i> <u>2017</u>	<u>2016</u>
ASSETS		
Cash and equivalents, unrestricted	\$ 14,942	\$ 27,179
Accounts receivable	4,932	7,824
Overpaid payroll tax receivable	223	-
Prepaid expenses	-	1,324
Inventory	17,649	4,683
Property, equipment and artifacts not part of a collection, net (Note 4)	<u>1,147,463</u>	<u>1,026,454</u>
TOTAL ASSETS	<u><u>\$ 1,185,209</u></u>	<u><u>\$ 1,067,464</u></u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 26,897	\$ 5,729
Payroll taxes payable	162	497
Sales tax payable	3,597	2,455
Accrued expenses --		
Interest (Note 5)	12,708	1,954
Payroll	4,223	1,384
Customer deposits, private events	47,730	42,843
Income tax payable	404	347
Long-term debt and advances payable (Note 5)	<u>2,311,151</u>	<u>2,640,719</u>
TOTAL LIABILITIES	<u>2,406,872</u>	<u>2,695,928</u>
 NET ASSETS (DEFICIT)		
Unrestricted	(1,221,663)	(1,628,464)
Temporarily restricted	-	-
Permanently restricted	<u>-</u>	<u>-</u>
TOTAL NET ASSETS (DEFICIT)	<u>(1,221,663)</u>	<u>(1,628,464)</u>
 TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,185,209</u></u>	<u><u>\$ 1,067,464</u></u>

The accompanying notes are an integral part of these financial statements.

**THE MUSICIANS HALL OF FAME AND MUSEUM
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<i>Year Ended December 31, 2017</i>			<i>Year Ended December 31, 2016</i>		
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>
INCREASES IN NET ASSETS						
Contributions --						
Unrestricted	\$ 264,223	\$ -	\$ 264,223	\$ 219,155	\$ -	\$ 219,155
Temporarily restricted	-	15,000	15,000	-	75,000	75,000
Admission fees	513,347	-	513,347	346,436	-	346,436
Private events revenue	263,861	-	263,861	216,289	-	216,289
Special fundraising event, awards show	2,771	-	2,771	100,601	-	100,601
Gift shop sales	50,834	-	50,834	37,076	-	37,076
Other revenue	237	-	237	1,136	-	1,136
Total support and revenue	1,095,273	15,000	1,110,273	920,693	75,000	995,693
Net assets released from restrictions	15,000	(15,000)	-	75,000	(75,000)	-
TOTAL INCREASES IN NET ASSETS	1,110,273	-	1,110,273	995,693	-	995,693
DECREASES IN NET ASSETS						
Program services	392,839	-	392,839	446,539	-	446,539
Management and general	310,633	-	310,633	169,189	-	169,189
Fundraising	-	-	-	129,765	-	129,765
TOTAL DECREASES IN NET ASSETS	703,472	-	703,472	745,493	-	745,493
CHANGE IN NET ASSETS	406,801	-	406,801	250,200	-	250,200
NET ASSETS (DEFICIT), beginning of the year	(1,628,464)	-	(1,628,464)	(1,878,664)	-	(1,878,664)
NET ASSETS (DEFICIT), end of the year	<u>\$(1,221,663)</u>	<u>\$ -</u>	<u>\$(1,221,663)</u>	<u>\$(1,628,464)</u>	<u>\$ -</u>	<u>\$(1,628,464)</u>

The accompanying notes are an integral part of these financial statements.

THE MUSICIANS HALL OF FAME AND MUSEUM
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<i>Year ended December 31,</i>	
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 406,801	\$ 250,200
Adjustments to reconcile change in net assets		
Depreciation	36,325	19,423
(Increase) decrease in operating assets		
Accounts receivable	2,892	(3,193)
State tax deposits	-	5,605
Overpaid payroll tax receivable	(223)	-
Inventory	(12,966)	4,883
Prepaid expenses	1,324	258
Increase (decrease) in operating liabilities		
Accounts payable	21,853	(2,726)
Payroll taxes payable	(335)	137
Sales tax payable	1,142	909
Accrued expenses	13,593	1,963
Customer deposits, private events	4,887	9,951
Income tax payable	57	(777)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>475,350</u>	<u>286,633</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, equipment and exhibits --		
Furniture and equipment	(34,496)	(4,262)
Grammy Gallery build-out costs	-	(128,417)
Other exhibit and leasehold build-out costs	(114,408)	(25,766)
Museum exhibits and fixtures	(9,115)	-
Restoration of artifact	-	(5,000)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(158,019)</u>	<u>(163,445)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on long-term debt	20,002	75,869
Principal payments of long-term debt	(349,570)	(177,154)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(329,568)</u>	<u>(101,285)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,237)	21,903
CASH AND CASH EQUIVALENTS, beginning of the year	<u>27,179</u>	<u>5,276</u>
CASH AND CASH EQUIVALENTS, end of the year	<u>\$ 14,942</u>	<u>\$ 27,179</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid on long-term debt	\$ 61,438	\$ 23,114
Income tax paid	347	1,124
Noncash investing and financing activities		
Settlements of related party debt and advances payable		
by delivery of museum artifacts --		
Cost of artifacts	-	(126,953)
Settlements of debt and advances payable	-	126,953
Acquisition of property and equipment on account --		
Cost of property and equipment	-	685
Payable on account	-	(685)

The accompanying notes are an integral part of these financial statements.

THE MUSICIANS HALL OF FAME AND MUSEUM
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Year Ended December 31, 2017				Year Ended December 31, 2016			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Awards show expenses (Note 6)	\$ -	\$ -	\$ -	\$ -	\$ 81,055	\$ -	\$ 129,765	\$ 210,820
Cost of sales, gift shop	19,960	-	-	19,960	20,813	-	-	20,813
Advertising and promotion	-	8,216	-	8,216	-	10,025	-	10,025
Salaries and wages	236,950	34,615	-	271,565	232,094	-	-	232,094
Employee appreciation benefits	-	3,020	-	3,020	5,281	-	-	5,281
Insurance, employees	14,018	2,048	-	16,066	-	-	-	-
Payroll taxes	22,198	3,244	-	25,442	19,894	-	-	19,894
Taxes and licenses, other	-	4,245	-	4,245	-	1,458	-	1,458
Merchant fees	-	13,443	-	13,443	-	8,645	-	8,645
Contract labor	-	25,238	-	25,238	-	18,553	-	18,553
Depreciation expense	1,063	35,262	-	36,325	1,063	18,360	-	19,423
Dues and subscriptions	-	10,940	-	10,940	-	7,152	-	7,152
Grammy Gallery expenses	20,890	-	-	20,890	25,249	-	-	25,249
Insurance, business	-	19,390	-	19,390	-	16,158	-	16,158
Interest expense	-	72,193	-	72,193	-	25,067	-	25,067
Travel, meals and entertainment	-	6,924	-	6,924	-	1,335	-	1,335
Professional fees, legal and accounting	860	18,670	-	19,530	-	15,245	-	15,245
Public relations	-	400	-	400	-	11,000	-	11,000
Rent, facilities (Note 7)	31,412	10,471	-	41,883	24,133	8,044	-	32,177
Rent, equipment and storage	3,286	174	-	3,460	8,880	133	-	9,013
Repairs and maintenance	4,327	1,443	-	5,770	1,372	457	-	1,829
Security	5,030	352	-	5,382	4,825	641	-	5,466
Building supplies	32,845	10,949	-	43,794	17,805	5,935	-	23,740
Office supplies	-	22,530	-	22,530	-	14,004	-	14,004
Telephone and internet	-	6,058	-	6,058	-	3,867	-	3,867
Other operating expenses	-	404	-	404	4,075	2,763	-	6,838
Income tax expense	-	404	-	404	-	347	-	347
	\$ 392,839	\$ 310,633	\$ -	\$ 703,472	\$ 446,539	\$ 169,189	\$ 129,765	\$ 745,493

The accompanying notes are an integral part of these financial statements.

THE MUSICIANS HALL OF FAME AND MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Who We Are and What We Do – The Musicians Hall of Fame and Museum was founded in July, 2003, and operates as a nonprofit organization under the laws of the State of Tennessee. We are a premier Nashville attraction and the only museum in the world that honors the talented musicians who played on the greatest recordings of all time. We are constantly adding new exhibits from all genres of music that capture the true essence of the history of music. We hosted over 43,000 visitors in 2017 and have experienced a growth rate in attendance of over 75% since 2014.

The Grammy Museum Gallery at the Musicians Hall of Fame and Museum is an interactive facility for our visitors. It allows guests to explore the history of the Grammy Awards and gives all ages the opportunity to be onstage and interact with every aspect of the recording process. (See additionally, Note 8.)

The Musicians Hall of Fame and Museum is a true Nashville experience, steeped in music history both past and present. There is something of interest for everyone. We educate and inspire. We cultivate creativity. *“Come See What You’ve Heard.”*

Basis of Accounting and Presentation – The financial statements of the Musicians Hall of Fame and Museum have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. Financial statement presentation follows the recommendations and requirements of the *Not-for-Profit Entities* Topic of the FASB Accounting Standards Codification. Pursuant to the Topic, the Musicians Hall of Fame and Museum is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Recognition of Donor Contributions and Support – Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Unrestricted support is free from donor-imposed restrictions and is recognized as revenues and an increase in unrestricted net assets in the period it is earned. Temporarily restricted support is limited by donor-imposed time restrictions or purpose restrictions and is recognized as an increase in temporarily restricted net assets. When net assets are released from the restriction, either with the passage of time or fulfillment of the specific purpose, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Permanently restricted support is required by donor restriction or by law to be maintained in perpetuity.

THE MUSICIANS HALL OF FAME AND MUSEUM
NOTES TO FINANCIAL STATEMENTS, continued
DECEMBER 31, 2017 AND 2016

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Musicians Hall of Fame and Museum considers money market funds and all highly liquid investments purchased and available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable -- Accounts receivable are recorded when invoices are issued and are presented in the balance sheet net of any allowance for doubtful accounts. Accounts receivable are written off when they are determined to be uncollectible. Management estimates the amounts in accounts receivable that will not be collected based on the financial condition of its customers, prior experience, and existing economic conditions. The Musicians Hall of Fame and Museum currently does not charge interest on any past due accounts. No allowance for doubtful accounts has been recorded at December 31, 2017 or 2016.

Inventories – Inventories, principally consisting of gift shop merchandise, are stated at cost.

Property, Equipment and Artifacts Not Part of a Collection – Property, equipment and artifacts not part of a collection are reported at cost or, if donated, at the approximate fair value at the time of donation, and include improvements that significantly add to utility or extend useful lives, and the cost of major preservation and restoration of exhibits and artifacts not part of a collection. Costs of maintenance and repairs are charged to expense as incurred.

Office and other equipment, and furniture and fixtures are depreciated using accelerated methods over estimated useful lives of 5 to 7 years. Buildout costs and leasehold improvements are depreciated using the straight-line method over 31.5 or 39 years.

No depreciation is recognized for the cost or other acquisition value of exhibits and artifacts not part of a collection, in accordance with the *Not-for-Profit Entities* Topic of the FASB Accounting Standards Codification. However, in accordance with the Topic, depreciation is recognized on major preservation or restoration of artifacts and exhibits, incurred from time-to-time, using the straight-line method over 10 years (See additionally, Note 4.).

THE MUSICIANS HALL OF FAME AND MUSEUM
NOTES TO FINANCIAL STATEMENTS, continued
DECEMBER 31, 2017 AND 2016

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donations of property, equipment and artifacts are recorded as support at the date of donation. Those donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

The Musicians Hall of Fame and Museum has not adopted a policy for implying time restrictions that expire over the useful lives of donated property, equipment and artifacts if those donated assets are received without stipulations about how long the assets must be used, or are acquired with gifts restricted for those acquisitions.

Income Taxes – The Musicians Hall of Fame and Museum is a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and files Form 990, Return of Organization Exempt from Income Tax. Additionally, the Musicians Hall of Fame and Museum files Form 990-T, Exempt Organization Business Income Tax Return, and Franchise and Excise Tax Returns with the State of Tennessee based on unrelated business income. Unrelated business income is generated mostly from advertising sales, operations of a gift shop and equipment rentals in connection with private events. The Musicians Hall of Fame and Museum incurred income taxes from continuing operations of \$404 and \$347, respectively, for the years ended December 31, 2017 and 2016.

The Musicians Hall of Fame and Museum's Forms 990 and 990-T, for the years ending December 31, 2014, 2015 and 2016 are subject to examination by the IRS, generally for three years after they were filed.

Any penalties and interest incurred on underpayment of income tax are classified as income tax in the financial statements.

Advertising Expenses -- Costs incurred for advertising and marketing are expensed when incurred. Advertising and marketing expenses are allocated to the Musicians Hall of Fame and Museum's program services if primarily benefited or, if primarily benefiting the Hall of Fame and Museum in nature, to management and general expenses.

The Musicians Hall of Fame and Museum entered into advertising barter transactions with media advertising suppliers during the years ended December 31, 2017 and 2016, whereby the Musicians Hall of Fame and Museum received print and television advertising in exchange for private event services. The amounts recognized in the financial statements as advertising expense and private events revenue are \$7,200 and \$1,795, respectively, for the years ended December 31, 2017 and 2016.

Shipping and Handling Costs – Shipping and handling costs are included in cost of sales and are not separately stated or included elsewhere in the financial statements.

THE MUSICIANS HALL OF FAME AND MUSEUM
NOTES TO FINANCIAL STATEMENTS, continued
DECEMBER 31, 2017 AND 2016

NOTE 2 – DONATED SERVICES, MATERIALS AND FACILITIES

The Musicians Hall of Fame and Museum receives donated services from unpaid volunteers assisting in the administration of its program services. No amounts have been recognized in the accompanying statements of activities for the years ended December 31, 2017 and 2016 because the criteria for recognition of such volunteer effort under the *Not-for-Profit Entities* Topic of the FASB Accounting Standards Codification have not been satisfied.

NOTE 3 – FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the Musicians Hall of Fame and Museum's program services and the costs of administration have been presented in the separate statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

NOTE 4 – PROPERTY, EQUIPMENT AND ARTIFACTS NOT PART OF A COLLECTION

Property, equipment and artifacts not part of a collection consist of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Office and other equipment	\$ 27,248	\$ 13,084
Furniture and fixtures	146,192	138,869
Grammy Gallery buildout	386,389	386,389
Leasehold improvements	190,820	75,187
Artifacts and exhibits not part of a collection	<u>535,815</u>	<u>515,601</u>
	1,286,464	1,129,130
Less: accumulated depreciation	(<u>139,001</u>)	(<u>102,676</u>)
Property and equipment, net	<u>\$ 1,147,463</u>	<u>\$ 1,026,454</u>

Additionally, the Musicians Hall of Fame and Museum has significant amounts of historical artifacts on display that it does not lease or own. Such artifacts are substantially owned by the Museum's chief executive officer and president. These amounts are not presented in the financial statements. (See, additionally, Note 5.)

THE MUSICIANS HALL OF FAME AND MUSEUM
NOTES TO FINANCIAL STATEMENTS, continued
DECEMBER 31, 2017 AND 2016

NOTE 5 – LONG-TERM DEBT, RELATED PARTY TRANSACTIONS

Long-term debt, in the original principal amount of \$2,711,691 is payable to the Musicians Hall of Fame and Museum's chief executive officer and president. The note, dated October 27, 2016, bears interest at the annual rate of 3% and is payable monthly through November 10, 2021. Terms of the note call for monthly payments of interest only in the amount of \$6,779. Prepayments of principal of the debt are allowed without penalty and the Musicians Hall of Fame and Museum paid \$349,570 and \$71,886 in principal amounts on the debt during 2017 and 2016, respectively, together with interest of \$61,438 and \$23,114, respectively, during the years. The debt is collateralized by all assets of the Musicians Hall of Fame and Museum, including inventories and accounts receivable.

Prior to execution of the debt agreement, amounts payable to the chief executive officer and president were classified as unsecured advances, non-interest bearing, to be used for operating working capital and other cash requirements of the Musicians Hall of Fame and Museum.

NOTE 6 – 2016 FUNDRAISING EVENT AND JOINT COSTS

The Musicians Hall of Fame and Museum hosted an induction ceremony for 2016 inductees and concert during the year ended December 31, 2016. This special event generated contributions as well as program services revenue. The cost of hosting this event included joint costs in the amount of \$210,820 which are not specifically attributable to particular components of the activity. These joint costs are allocated and included in the statement of functional expenses as follows:

Fundraising expenses	\$ 129,765
Program services	<u>81,055</u>
Total joint costs allocated	<u><u>\$ 210,820</u></u>

THE MUSICIANS HALL OF FAME AND MUSEUM
NOTES TO FINANCIAL STATEMENTS, continued
DECEMBER 31, 2017 AND 2016

NOTE 7 – OPERATING LEASE

The Musicians Hall of Fame leases the first floor of the Municipal Auditorium in Nashville, Tennessee, from Metropolitan Government of Nashville and Davidson County. The leased space contains its museum exhibit hall as well as office space. The lease is dated June 1, 2015, and is effective for 5 years through June, 2020. The lease can then be renewed for 3 additional terms of 5 years each, unless there is intent not to renew given by either party. The lease agreement stipulates monthly payments computed at the rate of \$1 for every ticket sold for museum admission, and for every attendee at private events held in the leased premises. For private events, lease consideration is capped at \$350, if that amount is less than the amount computed at the rate of \$1 per attendee. The Musicians Hall of Fame and Museum's rental expense under the lease was \$41,883 and \$32,177, respectively, for the years ended December 31, 2017 and 2016.

NOTE 8 – OTHER COMMITMENT, GRAMMY GALLERY

The Musicians Hall of Fame and Museum has an agreement for consulting services with Grammy Museum Services, LLC, Los Angeles, dated February 19, 2015, and is in connection with the operation of an interactive music museum gallery called the Grammy Gallery at Musicians Hall of Fame, located in the museum's exhibit hall. The agreement calls for a payment by the Musicians Hall of Fame and Museum to Grammy Museum Services in the amount of \$20,000 each year through March, 2021. In exchange for the consideration paid, Grammy Museum Services agrees to conduct semi-annual education workshops, training, site visits, the creation and maintenance of curricula around the museum exhibits, and updates to the content of the museum.

NOTE 9 -- CASH AND CONCENTRATIONS OF CREDIT RISK

The cash accounts are held by financial institutions that at times may exceed amounts that are federally insured. It is the opinion of management that the solvency of the referenced financial institutions is not of concern currently.

NOTE 10 – SUBSEQUENT EVENTS

The Musicians Hall of Fame and Museum has evaluated subsequent events through November 13, 2018, the date which the financial statements were available to be issued.

END OF NOTES